



Investment Office

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October 19, 2005

Mr. Howard G. Phanstiel
Chairman & Chief Executive Officer
PacifiCare Health Systems, Inc.
5995 Plaza Drive
Cypress, CA 90630

Dear Mr. Phanstiel:

CalPERS owns 423,100 shares (.48% of shares outstanding) of PacifiCare valued at approximately \$33 million. In addition, CalPERS owns 7,245,585 shares (.59% of shares outstanding) of United Health Group valued at approximately \$400 million. We are writing you to request that the PacifiCare Board of Directors rescind the compensation plan to its senior management team related to the accelerated vesting of options and signing bonuses driven by the company's agreement to be acquired by United Health Group. These are direct reductions in shareowner value. CalPERS thinks the Compensation Committee of the Board of Directors can find a more cost effective way of allowing these executives to maintain their equity based incentive compensation in the new combined company while minimizing the direct cost to shareowners. CalPERS has voted its proxies against PacifiCare's executive compensation plans in 2001 and 2005. Actions like the accelerated vesting of options driven by change in control provisions and the allowance for "tax gross-ups" are examples of inefficient compensation plans, not examples of best practices in executive compensation or efficient use of shareowner capital.

We are also contacting the leadership at the Department of Managed Health for the State of California to inform them of our communication with PacifiCare and to express our concerns regarding the inefficient use of shareowner assets. It is our intention to ask them to include our correspondence to them in their deliberations when conducting their regulatory approval process for this merger.

This request has the support of our Board of Administration. CalPERS encourages the PacifiCare Board of Directors to improve both its corporate governance and financial management practices and reassess the decisions that inefficiently use shareowner capital for executive compensation. We request that you amend the equity compensation plan to transfer senior management's equity and equity based compensation in PacifiCare to the merged company in a manner that eliminates this excessive and unnecessary direct cost to shareowners.

Sincerely,

Christianna Wood
Senior Investment Officer
Global Equity

Cc: The Honorable Secretary Sunne Wright McPeak